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RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
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UNCLAS SECTION 01 OF 02 ANKARA 006487

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SUBJECT: TURKISH FUEL FLOWING TO IRAQ

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SENSITIVE BUT UNCLASSIFIED.

11. (SBU) Summary. Turkish exports of fuel products to Iraq have resumed and should accelerate following another round of meetings in Ankara in which SOMO and the Turkish government agreed to intensify cooperation against fuel smuggling. Otherwise, SOMO payments to Turkish companies under the September 27 MOU are on track. Turkey's Foreign Trade Undersecretariat remains appreciative of its improved cooperation with SOMO's new management, and recommends that SOMO enter into longer-term contracts with a smaller number of Turkish companies so as to ensure fewer interruptions in shipments. End Summary.

SMUGGLING IS THE NEW ISSUE

12. (SBU) In a November 22 meeting, Foreign Trade Undersecretariat Director General Sevkettin Ilgac, who is responsible for relations with Iraq, updated us on the SOMO fuel supply saga. He said SOMO was meeting payments-related obligations under the September 7 MOU. He explained, however, that soon after September 27, a new set of issues emerged related to petroleum smuggling.

13. (SBU) As per the MOU section on cooperation against illegal activity, shortly after signing SOMO provided FTU with a list of drivers and companies involved in fuel smuggling activities in Iraq. FTU then proceeded to cancel these companies' export licenses and to put in place a system for issuing new export licenses that required certification that companies and drivers are not involved in smuggling. In order to implement this, FTU asked companies to provide additional information, such as driver namechecks and proof from SOMO that delivery was being made.

14. (SBU) The wait for SOMO and the companies to provide this information delayed the resumption of shipments for about three weeks. Over the past two weeks, after receiving information from SOMO and the companies, FTU has been reissuing licenses and fuel has begun to flow. The flow should accelerate as new licenses are

approved this week. Ilgac said that Turkish companies would then be in a position to meet all of SOMO's needs, including for kerosene.

15. (SBU) Ilgac blamed SOMO for not responding more quickly with the requested additional information and for continuing to work with some of the smaller, more dubious companies -- which appear to be well-connected in Baghdad. Instead of providing the information, SOMO started bad-mouthing FTU, which did not help. In FTU's defense, Ilgac pointed to the intense criticism Trade Minister Tuzmen has been under in the press and parliament for allegedly turning a blind eye to fuel smuggling. Thus, FTU must be super-careful. In meetings in Ankara last week, SOMO DG Faleh al-Amari told Ilgac he understood this and would work to cooperate better.

Comment

16. (SBU) Ilgac made two other points:

--The system is broken. He recommends that SOMO work with fewer, more dependable suppliers under longer term contracts. The current contracts are for one month, requiring frequent renewals of L/C's and other delays. Six month contract make much more sense.

--FTU is part of the solution, not the problem. The Turkish government only stepped in to help SOMO rescue this trade when it became apparent that SOMO's non-payment of suppliers threatened to ruin the companies financially. FTU cannot order Turkish companies to sell to SOMO, but once relations with companies are on a normal footing (including limiting illegal trade), FTU will be only too happy to step back and let trade flow freely, as it does in other sectors. Indeed, as a sign of its goodwill, FTU directly guaranteed SOMO's L/C's during the Eid/Bayram holiday when the company was unable to do so itself.

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